CME Term SOFR
Oversight Committee

Oversight Committee meeting – Public Minutes

CME Group Benchmark Administration Limited

September 21st, 2021
Agenda

1. Introduction
2. Conflict of Interest declaration
3. Prior Meeting Minutes
4. Benchmark Administrator Update
5. 12 Month Tenor Approval
6. Interest Rate Markets Update
7. Licensing & Distribution update
8. Legal & Compliance update
9. Items for discussion at next Oversight Committee

For approval
For discussion
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1. Introduction
The Chair welcomed the attendees and reminded members of the goal of the Committee. The Chair confirmed the meeting was quorate and voting will be on a simple majority.

2. Conflict of Interest declaration
No conflicts of interest were raised. The Chair reminded attendees of the Oversight Committee best practices. Members do not represent the interests of their employers and attendees must not to share sensitive/confidential information.

The Chair noted that minutes will be circulated and asked attendees not to circulate any information to third parties without the consent of the Administrator.

3. Prior Meeting Minutes
The Chair asked the Committee to approve the Prior Meeting Minutes. The Committee approved the minutes.

4. Benchmark Administrator Update
The Administrator provided an overview of the Management Information including the calculated Term SOFR rates, volumes and open interest. The Term SOFR rate was noted the have behaved as expected. Volumes of futures contracts used in the calculation have been stable. The Administrator is comfortable that the OI is satisfactory.

The Administrator monitors the SOFR Futures market across the intervals. There were no items identified of concern.

Daily reliability checks are performed in line with the documented methodology. There were some breaches of the two standard deviations in June, those were investigated and found to coincide with major economic releases. In July and August, there were no breaches.

The Administrator reported an anomaly in OIS volumes reporting. LCH no longer reports OIS data in a tenor bucket of less than one year, but volumes are bundled into a bucket of up to two-year transactions. Hence, the Administrator is unable to identify the one-year transactions from LCH. The methodology requires a comparison of future volumes against OIS of up to 12-month tenor, ignoring LCH data would be incorrect as it would disregard a large part of the OIS market.

In light of those findings, a July 2021 analysis was re-performed, indicating that the 25% threshold would have been hit. However, for OIS to be included, their volumes should consistently be above 25% for six consecutive months. The six-month sequence has already been interrupted by volumes falling below 25% in August, therefore the six-month count has been reset to zero.

Committee members and the Administrator debated the different approaches that could be implemented in order to best monitor activity in the SOFR OIS market <1 year relative to the CME SOFR Futures market.

The Administrator will continue monitoring OIS volumes. The Administrator noted that a memorandum on changes to the OIS monitoring approach will be drafted by CBA and circulated to OC Members for review and approval.

5. 12 Month Tenor Approval
The Administrator recalled an email circulated to the OC, seeking approval for the introduction of the Term SOFR 12-month tenor; approval was given by the OC. Changes to the calculation methodology were deployed on the weekend of 16th-17th September and the first 12-month Term SOFR rate was published Tuesday 21st, based on Monday 20th trading activity.
The 12-month rate is now published on the CBA website. CBA has received confirmation from Bloomberg and Refinitiv that they have both created a ticker for the 12-month rate for publication on both platforms. As of Tuesday 21st the 12-month rate wasn’t published by these vendors, but the expectation is it will be available soon.

The 12-month rate is also included in the CME data packages distributed via MDP and included within CME DataMine for easy access for customers. CBA is very pleased that the 12-month rate implementation has been successful.

   6. Interest Rate Markets Update

A member gave an update on the U.S. Interest Rate Markets, including an outlook on the macro-economy, FED Policy regarding inflation and the asset-purchase programme. Said member then provided an update on the SOFR futures market; open interest has continued to increase, providing sufficient market depth. He also gave an overview of volumes transacted in SOFR futures.

   7. Licensing & Distribution update

The Administrator recalled that in previous OC meetings members have requested an update on take up by market participants. There are close to 50 customers currently licenced to use Term SOFR. There are hundreds of inflight conversations from organisations that are naturally approaching CBA as the administrator of Term SOFR, asking to be licenced. There is also an outreach programme to engage some regional banks and securitization houses. There are a number of customers waiting to be licensed for derivatives hedges.

The CME licencing model is to allow for the use of Term SOFR in cash market financial products. This is in line with FED-ARRC recommendations.

CME licensing terms for Term SOFR are now public and the Administrator expect prospective users to revert soon to sign up for their use.

Term SOFR rates are currently available on the CME website, on CME DataMine, on MDP and on vendor’s platforms. The Administrator is also talking to other partners to expand public distribution.

   8. Legal & Compliance update

No updates.

   9. Items for discussion at next Oversight Committee

The Chair said the Administrator will circulate further details along with the potential resolution around OIS inclusion.